



Kelleher's cavity: Garrett Kelleher has done little since digging the foundation for his Chicago Spire. Bloomberg News photo

From this week's In Other News

## Chicago Spire twists in wind as union funds pass on bailout loan

By: [Eddie Baeb](#) December 21, 2009

Officials at four big investment funds affiliated with labor unions say they're not interested in rescuing the stalled Chicago Spire project.

Recent reports that Spire developer Garrett Kelleher and union officials are discussing a possible loan rekindled hope that work would resume on the twisting tower, which at 150 stories would be North America's tallest building.

But two union funds identified by a local labor leader and a Spire spokeswoman as having expressed interest, the AFL-CIO Building Investment Trust and the union-backed life insurer ULLICO Inc., are taking a pass, according to top executives there. Representatives of two others, the AFL-CIO Housing Investment Trust and the Multi-Employer Property Trust, say the Spire isn't a suitable investment for them.

"It's not something we're able to do," says Edward Smith, president of ULLICO.

"Unfortunately, these are just very difficult markets."

Another union fund or group of funds still could step forward with a loan for the project. Mr. Kelleher also could secure funding from other sources. But the lack of interest from the four big funds narrows the Irish developer's options as he seeks a financial lifeline for the Spire.

They're among the largest funds of their kind, controlling about \$13 billion in union pension funds and other assets. They also have a history of commercial real estate investing here and around the country, and an interest in backing projects that create jobs for union workers.

Worries about the prospects of the Spire in a moribund real estate market appear to have trumped their desire to help put union members back to work. The funds are no more eager than other real estate investors to risk money on a highly speculative project in the worst downturn in recent memory.

Mr. Kelleher seeks about \$170 million in short-term financing to pay off existing debt and move the project forward. It would be a particularly risky loan because the most likely source of funds for repayment would be a construction loan for the \$1-billion-plus project. Construction lenders typically advance funds only after a developer sells 50% of the units in a condominium project. After two years of worldwide marketing efforts, Mr. Kelleher has sold about 30% of the Spire's 1,194 units.

In essence, Mr. Kelleher is asking the union funds to bet on his ability to sell condos in a stagnant downtown housing market, where mortgage and construction financing is hard to come by.

Michael Arnold, head of investor relations for the AFL-CIO Building Investment Trust, says his fund can't take that risk. "We would obviously like to be helpful," he says. "We understand the interest, but we're not any different than other real estate lenders today."

Thomas Villanova, president of the Chicago & Cook County Building & Construction Trades Council, hopes union fund managers will consider not only financial risk but also the job-creating benefits of the project.

"This just can't be looked at in a straight investment-type view. You've got to add into the equation this would be 7.5 million man-hours for my members," Mr. Villanova says. "I don't think we've ever seen times as bad as they are now."

Mr. Villanova organized a meeting in the spring between Mr. Kelleher's company, Shelbourne Development Group Inc., and representatives of the 24 local unions that comprise his group. He says some local union officials met with Shelbourne again, but he can't recall which ones.

More recently, Mr. Villanova arranged a meeting on Nov. 30 between Shelbourne and Mark Ayers, a Washington, D.C.-based union leader who's a board member with ULLICO and the AFL-CIO Housing Investment Trust. Mr. Ayers didn't return calls.

Told that Mr. Arnold and ULLICO's Mr. Smith say their funds aren't interested in underwriting the Spire, Mr. Villanova responds: "Well, then that's their answer."

Mr. Villanova says his local members may still find a way to pool some of their pension money along with the national funds and make a deal. He acknowledges a loan to the Spire would be an unusual move for a local union.

### **'I CAN'T IMAGINE'**

Representatives of three locals that belong to Mr. Villanova's organization — Boilermakers Local 1, Elevator Constructors Local 2 and Operating Engineers Local 150 — say they aren't pursuing a Spire investment. Calls to the other locals weren't returned.

"I don't know of any (local pension funds) involved in those talks," says Jack Marco, chairman of Chicago-based Marco Consulting Group Inc., an investment adviser to union pension funds. "I can't imagine who would be doing that."

A spokeswoman for Shelbourne, which is battling eviction from its sales office at NBC Tower and a lawsuit by Bank of America Corp. over a \$4.9-million loan default, says it's still talking with Mr. Ayers and unions she declines to name. She adds that Shelbourne is working on other financings and recently arranged a "bridge financing" but won't name the lender or disclose the amount of the loan.

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## **What do you think?**

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Santa C. wrote:

I'm patiently waiting for Kelleher to default on his triple-lot (with large side yard and 4-car garage) Astor Street home loan. I'd love to pick up that crib from the bank on a short sale, or at foreclosure auction when the bank opens its bid with what Kelleher should have paid for it and not what he owes! It's arguably the fourth-nicest Astor Street house.

12/24/2009 4:05 PM CST

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Edward H. wrote:

The real problem is trying to sell 561 square feet for \$800,000.

Assessments for that 561 sq ft are probably near \$500 a month. At 20% down, and 5% interest, monthly

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mortgage and assessment payments would be over \$4,000. That doesn't even include taxes. \$4K/Month For a studio? No.

12/23/2009 1:33 PM CST

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Airayna L. wrote:

Chicago has been missing it's wonderful Skating Rink - A Children's Museum with a Summer Pond and Winter Skating Rink Roof - agreed!

12/22/2009 8:32 PM CST

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Garry wrote:

Jon C:

I really, really doubt if Kelleher put \$180 million of his own money in the project. If he did, then he built the most expensive hole in history, even one more costly than never completed Superconducting Supercollider that Bush started for his buddies in Texas. There's no way on Earth that the foundation cost \$180 million! He should have been able to have started on the steelwork with that amount of money. Kelleher might be on the hook for most or all of it, but he'll just declare bankruptcy & then the idiot banks will take the hit & then go to us poor taxpayers to bail them out.

12/22/2009 6:28 PM CST

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Jon C. wrote:

Jeff P... Not saying I think the Spire's a particularly good idea (although a decent list of mega-scrapers were erected during very poor economic times... Take the Empire State for example) but seriously please get your facts straight before making extreme statements.

Kelleher has actually invested \$180 million of his own funds for this project... Doesn't exactly paint a picture of unwillingness to "commit his own cash." Obviously he personally believes in this project, no matter how visionary/ambitious or ill-advised/foolish it may be.

12/22/2009 11:10 AM CST

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LucidRealty I. wrote:

The pension fund has a responsibility to the beneficiaries to make good investments. If the project wasn't a good investment for anyone else then why on earth would it have made a good investment for the pension? When I first heard about the idea I thought they had taken leave of their senses but I guess they haven't after all.

Fill the hole with water and use it as a skating rink.

12/22/2009 8:58 AM CST

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jerry h. wrote:

The rubber is finally meeting the road. The policies that this admin has put forth are dooming this country. You can't just throw money at the problem, you need sound policies and its probably too late unless the president does this: cut taxes, lend to small businesses, allow energy companies to drill here and now, gut the farm bill except for food stamps, cut all (including the military) govt pat by 15%, cut off all foriegn aid, no more subsidies for anybody and since we have no hope of paying the debt off tell all creditors we cant pay them. Scuttle health care reform for now, withdraw from Iraq, hiring freeze on govt workers, cut all govt programs in half and make do. People we are in a state of emergency and what I have outlined will get us back on track and if we don't make sure you have a rifle and ammo handy cause thats whats coming.

12/21/2009 11:57 PM CST

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Jeff P. wrote:

The banks won't fund the construction. The developer won't commit his own cash either. Why on earth would the unions commit their RETIREMENT SAVINGS to such a flawed project? Seriously, Kelleher is trying to screw anyone he can. Let it go people!

12/21/2009 11:50 AM CST

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David G. wrote:

Building the Spire would have been a challenge for an experienced developer. So we had an inexperienced developer and a dreamer for an architect and the entire project went ka-put. Should we be surprised? Glad I'm not the one with a lien on the hole.

12/21/2009 11:28 AM CST

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TH wrote:

Why is it that every one of these articles about developments invites some comment to the effect of "couldn't they spend the money on something that benefits average people"? Well, it's the developers' money and they'll use it however they can make a good financial return. When the Spire was planned luxury condos were a lucrative market. I'm all for better public transportation but why would a private developer ever put private funds toward that purpose?

Two facts of life are that people are paid based on how much money they can make for someone else, and products and developments are tailored to whomever can pay for them. The golden rule: he who has the gold makes the rules. This is why bankers and traders that earn their firms tens of millions are paid millions in return, while teachers who add a lot of value to society but don't make their schools any money are not. This is how it always has been and how it always will be.

12/21/2009 10:16 AM CST

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